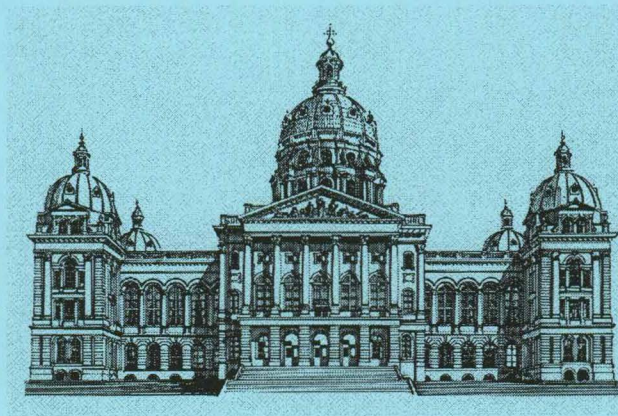


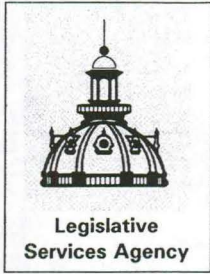
FINAL REPORT

**PROPERTY TAXATION
REVIEW COMMITTEE**



Presented to the
LEGISLATIVE COUNCIL
and the
IOWA GENERAL ASSEMBLY
January 2005

Prepared by the
LEGISLATIVE SERVICES AGENCY



FINAL REPORT

Property Taxation Review Committee

January 2005

MEMBERS

Senator Bryan Sievers,
Co-chairperson
Senator Herman Quirmbach
Senator Pat Ward
Larry Countryman
R. Kim Dreher
Dale Hyman
Tom Jarrett
Tim McGee
Cynthia Eisenhauer (nonvoting member)
Mike Ralston (nonvoting member)

Representative Jim Kurtenbach,
Co-chairperson
Representative Don Shultz
Representative Doug Struyk
Curtis Rouse
Jerry Shepler
Larry Sigel
Ted Tedesco
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Contents:

- Authorization and Appointment
- I. Summary of Committee Activities.
- II. Committee Meetings.
- III. Statement of Committee to the General Assembly.
- IV. Reports of the Subcommittees.
- V. Materials Distributed and Filed With the Legislative Services Agency.

AUTHORIZATION AND APPOINTMENT

The Property Taxation Review Committee was established by the Legislative Council in June 2004 and was authorized to meet five times.

The charge of the Committee is as follows:

The Property Taxation Review Committee shall review and analyze the following: a. Revenue sources available to local governments, including taxes, payments in lieu of property taxes, fees, state appropriations, and federal moneys; b. The portion of state revenues annually appropriated, or otherwise disbursed, to local governments; c. Exemptions, credits, deductions, exclusions, and other reductions in local taxes, authorized by state statute or local ordinance, to local taxpayers and state reimbursement of any property tax credits and exemptions; d. services provided by local governments, including those provided at the discretion of a local government and those mandated by federal or state statutes and regulations; e. The role of property taxes in funding local government services and the types of services currently funded by property taxes; f. Alternative systems of property taxation, alternative procedures for protesting property assessments, and various methods of controlling property tax revenues and expenditures. In conducting its review and analysis, the Committee shall study local taxes from the standpoint of neutrality; competitiveness; simplicity; stability; and equity, including maintenance of equity among classes of taxpayers and among taxpayers within the same class. The Committee may hold public hearings to allow persons and organizations to be heard.



Property Taxation Review Committee

I. Summary of Committee Activities.

The Committee met four times over the 2004 Legislative Interim. The Committee was divided into three subcommittees: 1) The Options for Iowa Tax Overhaul Subcommittee; 2) The ISAC/League of Cities Property Tax Reform Proposal Subcommittee; and 3) The Other Issues Subcommittee. The Subcommittees reported to the full Committee at the Committee's fourth meeting on December 15, 2004. The Committee discussed the reports and recommendations of the Subcommittees. No further action was taken by the Committee at that meeting pertaining to the Subcommittee reports. The fifth meeting was to be held on January 5, 2005, but because of inclement weather and concern for the safety of members driving to the meeting, the meeting was canceled. In lieu of rescheduling that meeting, the members communicated by telephone and e-mail and agreed on a statement to forward to the General Assembly as the Committee's report.

II. Committee Meetings.

A. September 1, 2004, Meeting.

The Committee elected Senator Bryan Sievers and Representative Jim Kurtenbach as permanent co-chairpersons. The Committee heard presentations on the role of property taxes from the Iowa Association of School Boards, the Iowa League of Cities, the Iowa State Association of Counties, and the Iowa Farm Bureau Federation.

B. September 28, 2004, Meeting.

Community Colleges. The Committee heard testimony on community colleges funding from Mr. Rob Denson, President, Des Moines Area Community College, and Mr. Steve Ovel, Director of Governmental Relations, Kirkwood Community College. Mr. Denson stated that although community college attendance increased significantly between 1990 and 2004, the amount of state funding per community college student decreased over the same time period. Mr. Denson also informed the Committee that community college property tax is a very small portion of the consolidated property tax levy. Mr. Ovel directed the Committee to several legislative proposals introduced during the 2004 Session that addressed changes in community college funding.

Assessors. Mr. Richard Stradley, Property Tax Administrator, Iowa Department of Revenue, made a presentation on the qualifications and duties of local assessors. Mr. Stradley also distributed information on the budget process for local assessors' offices and information on FY 2004-2005 budgeted expenditures and total levies of the local assessment jurisdictions.

Assessment Appeals and Inequities. The Committee received from the Property Tax Appeal Board Subcommittee an update on proposed legislation concerning property assessment appeals and local assessors.

The Committee heard testimony from two separate presenters relating to problems in the property assessment appeal process and to perceived inequities in the property taxation of single-family residences, apartments, and land located in manufactured home communities.



The presenters were Mr. Keith Denner, President, Professional Property Management, Inc., and Ms. Barbara Hames, Vice President, Hames Manufactured Home Communities, LP.

Iowa Chamber Alliance. Mr. David Maahs, Co-chairperson of the Iowa Chamber Alliance and President of the Ames Chamber of Commerce, spoke on the inequities inherent in the rollback provisions as they affect commercial and industrial property. He emphasized that he was not recommending the complete elimination of the rollback provisions but rather the need for an adjustment so that commercial and industrial property is no longer burdened with the bulk of the property taxes as is the case in the major cities in the state.

Fire Fees. Mr. Eric Anderson, City Manager, City of Des Moines, made a presentation to the Committee on a proposed fire fee. Under the proposal, a city could exercise the option of charging a fire fee to owners of structures only, including nontaxable structures. The total amount of the fire fee charged would be deducted from the city's \$8.10 general fund levy capacity.

Committee Discussion. The Committee Co-chairpersons distributed to members a list of questions entitled "Options for Iowa Tax Overhaul."

C. November 10, 2004, Meeting.

Property Tax Reform Proposal. The Committee heard a presentation from representatives of the Iowa State Association of Counties (ISAC) and the Iowa League of Cities. Earlier in the year, ISAC and the League of Cities had formed a joint task force on property tax. Their presentation related to the recommendations for property tax reform developed by the task force.

Objectives of a Property Tax System. The Committee discussed and made amendments to the paper entitled "Objectives of a Property Tax System," which had been distributed at the second meeting. The objectives, as amended, are:

1. Reliable and predictable revenue source for local government.
2. a. Taxation within a class of property must be equitable.
b. Taxation across classes of property must be based upon economic value and be equitable and consistent statewide.
3. Simple system and transparent to the taxpayer.
4. Responsive to changes in valuation and classification.
5. Foster economic growth.

Subcommittees. After much discussion, the Committee decided to split into three subcommittees. The first subcommittee was to study and report on the property tax reform proposal submitted by ISAC and the League of Cities. The second subcommittee was to study and report on the document distributed at the second meeting entitled "Options for Iowa Tax Overhaul." The third subcommittee was to study and report on various other issues, including creation of a property assessment appeal board on the state level and other administrative matters.



Property Taxation Review Committee

D. December 15, 2004, Meeting.

Overview. The Property Taxation Review Committee held its fourth of five authorized meetings. Each of the three subcommittees gave their reports. Each of the reports was thoroughly discussed. The full Committee chose not to make any recommendations at this meeting.

III. Statement of Committee to the General Assembly.

Co-chairperson Sievers and Co-chairperson Kurtenbach and the members of the Committee communicated by telephone and e-mail on how best to proceed in light of cancellation of the fifth meeting. By consensus, the Committee agreed to forward the following statement to the General Assembly:

Statement of the Property Taxation Review Committee –

To comply with the Legislative Council deadline of January 7, 2005, for interim committee reporting, the Property Taxation Review Committee puts forth, without recommendation, the reports of the three Subcommittees for review by the General Assembly. The reports of the Subcommittees are attached, and by reference made a part of this Final Report.



IV. Reports of the Subcommittees.

A. Options for Iowa Tax Overhaul Subcommittee.

Members:

Representative Jim Kurtenbach
Representative Don Shoultz
Larry Countryman
Kim Dreher
Dale Hyman
Jerry Shepler
Larry Sigel
Mayor Ted Tedesco

Report of the Subcommittee

The Subcommittee recommends the following for consideration by the full Committee:

1. That the General Assembly pass legislation imposing a school foundation property tax levy that is uniform statewide and in such an amount that results in no one taxpayer experiencing an increase in school property taxes and providing that the state fund the difference between the regular cost per pupil and the amount realized by the uniform levy.
2. That the General Assembly pass legislation that eliminates state reimbursement to local governments for property tax credits and exemptions with the state using that money to provide property tax relief by increasing the state's funding obligation under the school foundation formula.
3. That the General Assembly pass legislation removing the assessment limitation tie between agricultural and residential property.
4. That the General Assembly reduce the cost of operating a business in the state by passing legislation that imposes a uniform level of sales taxation throughout Iowa taxing jurisdictions.
5. That the General Assembly pass legislation that removes the barriers to local government (cities, counties, and school districts) reorganization, merger, consolidation, and sharing of services.
6. That the General Assembly pass legislation that addresses the disparity in the classification of property used for housing.



Property Taxation Review Committee

B. ISAC/League of Cities Property Tax Reform Proposal Subcommittee.

Members:

Senator Sievers
Senator Quirnbach
Tim McGee
Mike Ralston
Curtis Rouse
Jerry Shepler
Larry Sigel
Mayor Ted Tedesco
Grant Veeder

Report of the Subcommittee

The Subcommittee used a document from ISAC and the League of Cities entitled "Major Points in the ISAC/League Property Tax Reform Proposal" to focus its discussion. The document divides the property tax reform proposal into three categories: 1) assessment and valuation, 2) budgeting and taxation, and 3) constraints and limitations.

1. **Division 1—Assessment and Valuation**—The Subcommittee believes that further consideration by the full Committee should be given to this division, especially in regard to the following:
 - Elimination of the rollback and substitution of a 50 percent residential exemption for owner-occupied dwellings.
 - Valuation exempted under the forest reserve exemption.
 - Multiclassification of individual parcels of property.
 - Implementation of equalization orders, especially in regard to the timing.
 - Impact of changes on renters and low-income persons.
 - Valuation of agricultural buildings.
2. **Division 2—Budgeting and Taxation**—The Subcommittee recommends this division, as modified by the Subcommittee, for adoption by the full Committee. The modification was to add that any state savings from the elimination of the homestead credit reimbursement should be directed to property tax relief and tax relief to renters and low-income persons. The division, as modified, reads as follows:
 - New budget publication form will highlight effect of budget on sample taxpayers.
 - Property tax credits – counties will no longer be the middlemen.
 - Homestead credit is eliminated and the state savings realized from no longer reimbursing local governments for the homestead credit



- should be directed to property tax relief and tax relief aimed to renters and low-income persons.
- Ag land and family farm credits combined and changed to direct payment from state to taxpayer.
 - Military credit/exemption transferred to refundable income tax credit.
 - Elderly credit changed to direct payment from state to taxpayer.
 - Cities and counties will formally establish their own fund balance limitations.
 - Stronger unfunded mandate protection language.
 - No exceptions, but still subject to “notwithstanding.”
 - Budget appeals will focus only on issues raised in budget protest petition.
3. **Division 3—Constraints and Limitations**—The Subcommittee does not recommend the specific language of Division 3, but does recommend that the full Committee agree with the general concept of a property tax revenue limitation that provides local governments with flexibility and that takes into account local differences and local circumstances. Additional consideration should be given by the full Committee to the following items contained in Division 3 as they relate to a property tax revenue limitation:
- Which funds would be covered by a revenue limitation.
 - The number of signatures needed as the threshold for holding a reverse referendum.
 - The carryover of unused levy authority under a revenue limitation.
 - The calculation for the base year under a revenue limitation.



Property Taxation Review Committee

C. Other Issues Subcommittee.

Members:

Senator Pat Ward
Representative Doug Struyk
Kim Dreher
Cynthia Eisenhauer
Dale Hyman
Tom Jarrett
Mike Ralston
Curtis Rouse

Report of the Subcommittee

The Subcommittee recommends the following for consideration by the full Committee:

1. That the proposed legislation entitled "An Act relating to property assessment for purposes of property taxation, including property assessment guidelines and creation of a property assessment appeal board to hear appeals of the action of local boards of review" be recommended for passage by the General Assembly to be initiated beginning with the assessment year beginning January 1, 2007.
2. That the Department of Revenue or the General Assembly address the issue of assessment of certain acreages as residential or agricultural.
3. That the General Assembly add information, and clarify existing information, on the property tax statement to show increases in assessments, expenditures, and levy rates in order to provide more transparency to the taxpayer and property owner.
4. That the General Assembly pass legislation providing that if an aggrieved taxpayer or property owner has an assessment lowered due to action of the local board of review or district court (or assessment appeal board, if enacted), the assessor shall not increase the assessment over the final assessment amount in the year protested or appealed until the next revaluation year unless the taxpayer/owner makes changes to the property.



V. Materials Distributed and Filed With the Legislative Services Agency.

Materials distributed in connection with Committee meetings are filed with the Legislative Services Agency and may be accessed from the Committee's Internet page at: <http://www4.legis.state.ia.us/asp/Internet/Committees/Committee.aspx?id=63>

A. September 1, 2004, Meeting.

1. The Once and Future Property Tax – Zelinski Law Review article.
2. Criteria for Good Proposals for Property Tax Reform – Dr. Thomas Pogue, University of Iowa.
3. Assessment Limitation Historical Information – Iowa League of Cities.
4. City of Ames Budget Information – Iowa League of Cities.
5. City Property Tax Issues – Iowa League of Cities.
6. Property Taxes and the School Foundation Formula – Iowa Association of School Boards.
7. County Revenue Sources, Expenditures, and Property Taxes by Levying Authority – Iowa State Association of Counties.
8. Property Tax Trends and Reform Issues – Iowa Farm Bureau Federation.
9. Legislative Guide to Local Property Tax – Legislative Services Agency, Legal Services Division.

B. September 28, 2004, Meeting.

1. Funding the Community Colleges of Iowa – Community colleges representatives.
2. Qualifications of Assessor and Budget Process – Iowa Department of Revenue.
3. Two Issues Regarding Property Taxation – Professional Property Management, Inc.
4. Proposed Fire Fee – City of Des Moines.
5. Manufactured Housing Presentation – Hames Manufactured Home Communities, LP.
6. Options for Iowa Tax Overhaul – Prepared at direction of Co-chairpersons.
7. "Property Taxes: They Aren't What They Seem" – Series of Ames Daily Tribune editorials.

C. November 10, 2004, Meeting.

1. Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.
2. Property Tax Reform Proposal PowerPoint Outline – Iowa State Association of Counties and Iowa League of Cities.
3. Highlights of Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.
4. Major Points in the ISAC/League Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.
5. Comparisons of the ISAC/League Property Tax Reform Proposal to Current Law – Iowa State Association of Counties and Iowa League of Cities.



Property Taxation Review Committee

6. ISAC/League Property Tax Reform Proposal Fiscal Impact Estimate – Iowa State Association of Counties and Iowa League of Cities.

D. December 15, 2004, Meeting.

1. Report of the Other Issues Subcommittee.
2. Report of the Options for Iowa Tax Overhaul Subcommittee.
3. Report of the ISAC/League of Cities Property Tax Reform Proposal Subcommittee.
4. TLSB 1022HH 81 – “An Act relating to property assessment for purposes of property taxation, including property assessment guidelines and creation of a property assessment appeal board to hear appeals of the action of local boards of review.”
5. Memorandum on fiscal impact of TLSB 1022 HH 81 (Property Assessment Appeal Board Bill) – Legislative Services Agency, Fiscal Services Division.
6. Major Points in the ISAC/League of Cities Property Tax Reform Proposal – ISAC and the League of Cities.

NOTE: It has been the practice of interim committees to submit a draft of the final report of an interim committee to the members of the committee via regular mail or e-mail and to give the members a specified amount of time to comment on the final report. If any comments are made, or objections raised, as to the form or contents of the final report and such comments or objections are of a substantive nature, the co-chairpersons resolve the issue with the party making the comment or raising the objection. If the resolution involves changing the language of the final report, a revised report is sent to each of the committee members in the same manner as was the original draft report. Senator Quirnbach in his comments on the draft final report raised a concern about this process. His concern is duly noted in this final report.

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